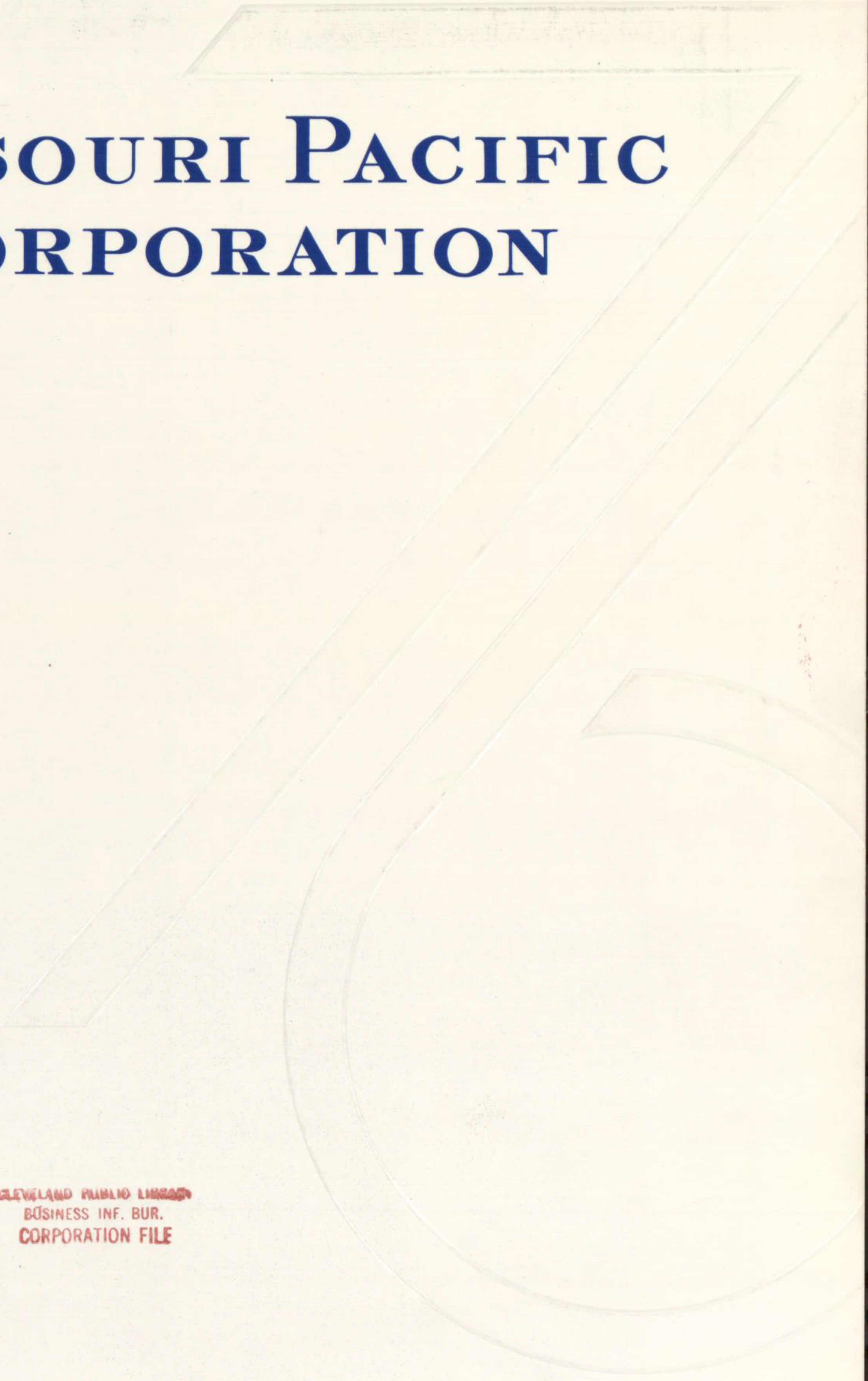
MISSOURI PACIFIC CORPORATION



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1976 Annual Report

Missouri Pacific Corporation

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Annual Meeting

The Annual Meeting of Shareholders of Missouri Pacific Corporation will be held on Thursday, May 26, 1977, at 10 A.M., Central Daylight Time, at the Clayton Community Center, 2 Mark Twain Circle, Clayton, Missouri.

Financial Highlights

	1976	1975
Total sales and revenues (thousands)	**$1,288,453**	$1,113,794
Net income (thousands)	**80,220**	49,275
Per share:		
Net income—		
Primary	**$6.86**	$5.28
Fully diluted	**6.17**	4.79
Cash dividends	**1.50**	1.22½
Weighted average number of shares outstanding (thousands):		
Primary	**11,422**	9,057
Fully diluted	**12,997**	10,275

To Our Shareholders

Missouri Pacific Corporation achieved record earnings for 1976. Consolidated net income increased 63% to $80.2 million, or $6.86 per share, on total revenues of $1,288 million. In 1975, net income was $49.3 million, or $5.28 per share, on revenues of $1,114 million. Fully diluted per share earnings were $6.17 and $4.79 for 1976 and 1975 respectively.

Reflecting the Company's improved performance, the dividend was increased twice in 1976. Per share payments for the year totalled $1.50 compared to $1.22½ in 1975. On March 3, 1977, the Directors approved a further increase in the quarterly payout to $.45 per share, indicating a new annual dividend of $1.80.

The Company's ownership of the Missouri Pacific Railroad System was increased from 62% to 92% as a result of an exchange of stock completed in June. Another important objective was attained in October with completion of the merger of The Texas and Pacific and the Chicago & Eastern Illinois Railroad into the Missouri Pacific Railroad.

The Missouri Pacific Railroad System finished 1976 well ahead of the previous record of $49.7 million earned in 1974. Consolidated net income was $68.7 million compared to $46.7 million a year ago. Revenues increased to $1,014 million against $889 million in 1975. MoPac's strong performance reflects the economic strength of its twelve state service area and its diversified traffic base. Reduced grain, metal and aggregate freight was offset by improvements in chemical, automobile, paper, lumber, food, piggyback and coal movements. The net gain amounted to a 6.8% improvement in revenue ton miles. Industrial expansion on the Missouri Pacific Railroad continued to be an important source of increased business. Since 1970, more than 1,200 new or expanded industrial facilities, representing an investment of $4 billion, have been located along our lines and substantial additional expenditures are expected over the next five years.

Our natural gas pipeline subsidiary, Mississippi River Transmission Corporation, earned $15.9 million in 1976 on revenues of $239 million. Comparable 1975 figures were $12.3 million of net income and revenues of $193 million. Gas volumes sold increased for the third consecutive year, reaching a total of 226 billion cubic feet. Despite this winter's record low temperatures, the Company continued to serve its market well.

River Cement Company's net income increased 8% to $4.2 million. Sales were $36.2 million, up from $33 million in 1975. Due to an improving economy, cement sales volume rose to 965,000 tons from 919,000 tons sold in 1975.

On February 1, 1977, we initiated an automatic dividend reinvestment service. The plan is explained in a brochure which has been mailed to you.

We are pleased with the progress achieved in 1976 and look forward to another satisfactory year.

DB Jenks

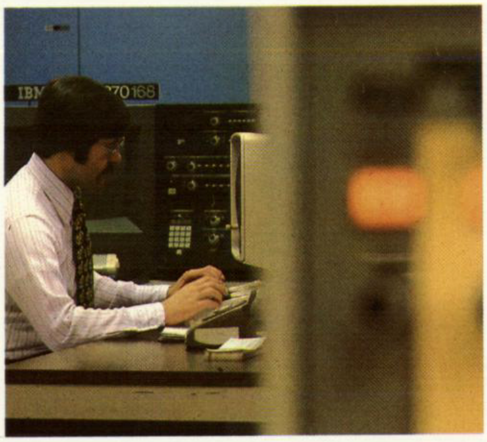
Downing B. Jenks
Chairman of the Board

TH O'Leary

Thomas H. O'Leary
President

March 7, 1977

Missouri Pacific Railroad System

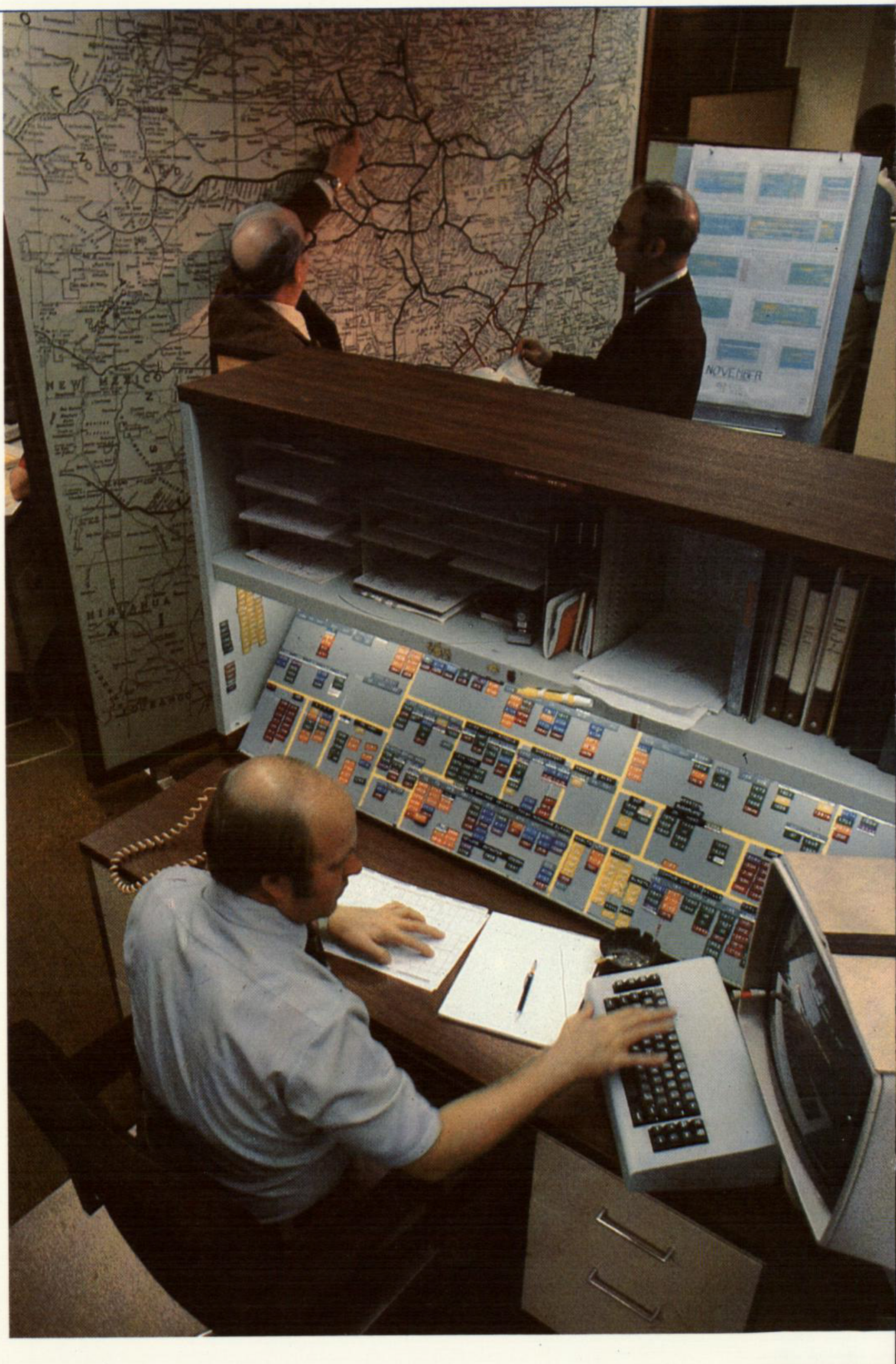


Operations Control is the nerve center of MoPac's Transportation Control System. Designed to improve service and increase equipment utilization, the system employs two IBM 370/168 computers plus minicomputers located in the field to monitor and control the movement of virtually every freight car and locomotive on the Missouri Pacific System.

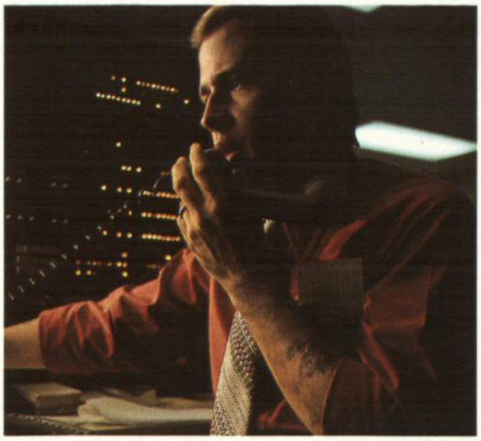
The Missouri Pacific Railroad System reported record financial results in 1976. Earnings increased 47% to $68.7 million surpassing the previous high of $49.7 million earned in 1974. Total operating revenues were up 14% to $1,014 million compared to $889 million a year ago.

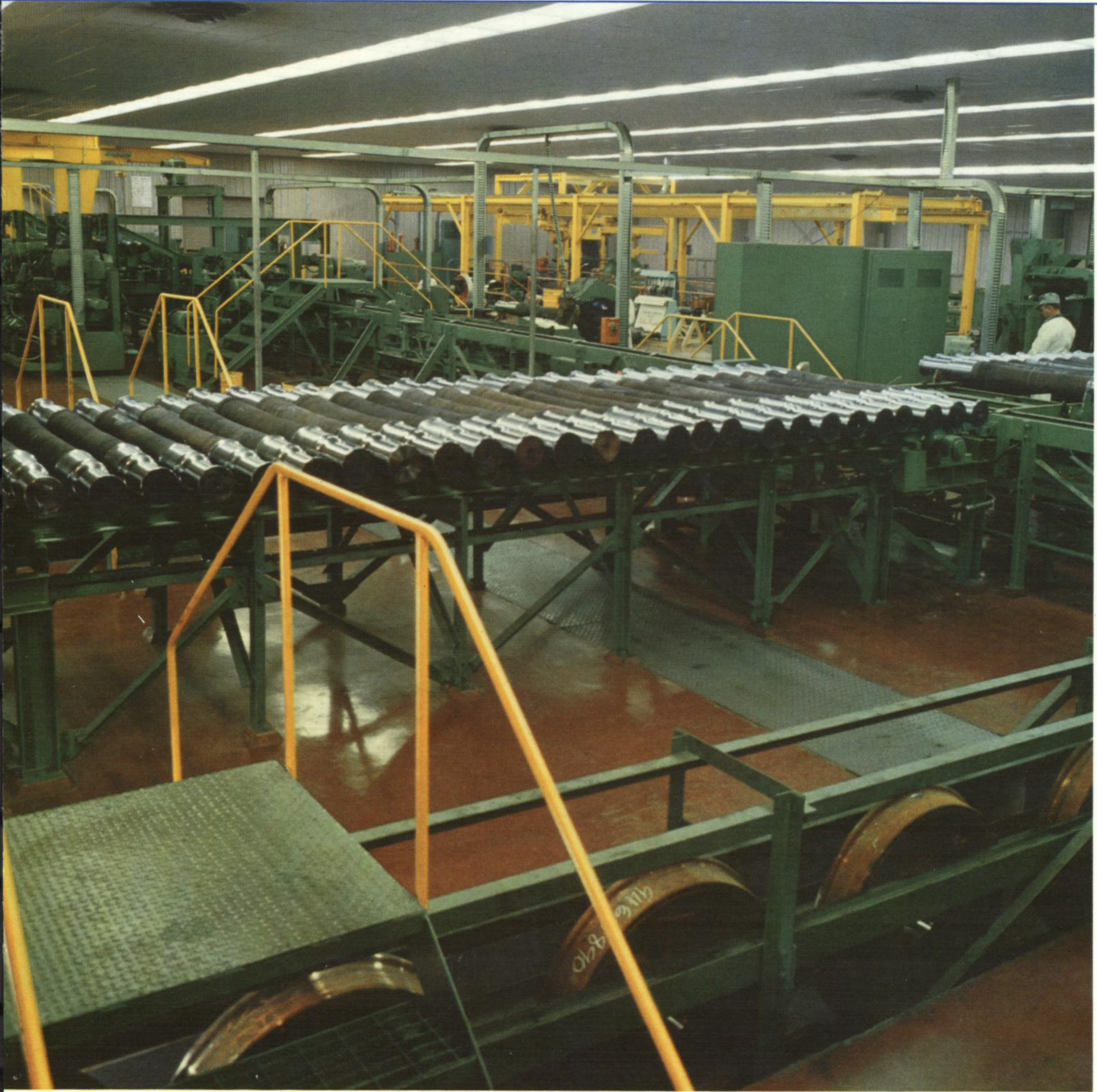
Freight revenues benefited from 6.8% higher revenue ton miles and rate increases aggregating 5.3%. An additional 4% increase in rates was approved in January, 1977. The Railroad experienced traffic gains in chemicals, automobile and automobile parts and coal. Chemical loadings, which represent the largest single revenue component, increased 9.4% and automobile traffic rose 29%. Local coal movements, depressed throughout much of the year, increased 12.8% in the fourth quarter and were up 2.1% for the year. Western coal tonnage increased 129% in 1976 to approximately 2.8 million tons. During the year, three additional unit trains were added to move this coal from Utah, Colorado and Wyoming to points in Illinois and Oklahoma. Grain revenues were up 1.5% despite a decline in loadings. Movements were depressed 12% resulting from lower domestic market prices for wheat and reduced export demand. However, we anticipate that a substantial amount of grain held in storage during 1976 will move to market in 1977. Other commodities that showed improvement in 1976 were: paper and paper products, up 9.8%, lumber increased by 11.6% and foods were up 9.7%. Piggyback trailer loadings increased 13.9% and container shipments advanced approximately 22%. Metal carloadings were down 17.6%, and due primarily to adverse weather conditions in the Southwest, aggregates declined 8.5%.

During the year, an estimated $1.1 billion was invested in new or expanded industrial facilities along MoPac's lines. Based upon current rates, these expenditures are expected eventually to

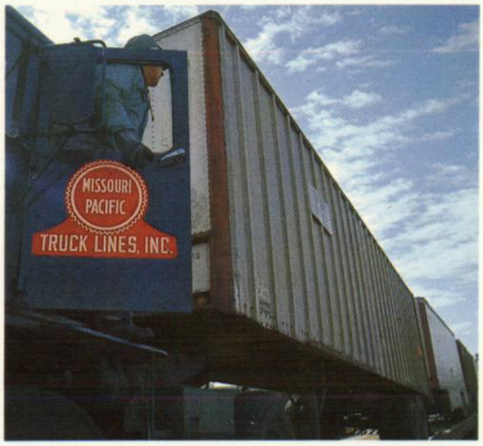


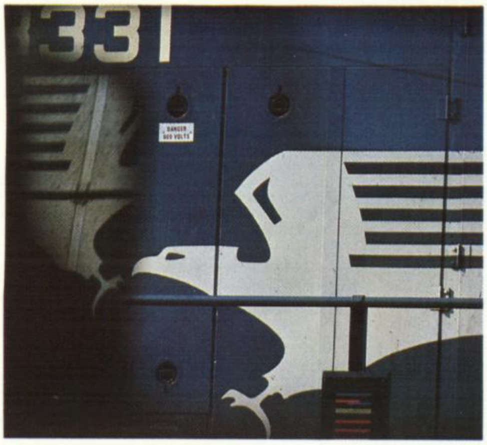
Axles and wheels are prepared for mounting at the centralized wheel shop in Little Rock. One of the industry's most modern, this automated facility turns out 100 pairs of locomotive and freight car wheels per shift for distribution throughout the system.





The Yardmaster at one of our major electronic switching yards utilizes a computer to classify and expedite the movement of more than 3,000 cars per day. Located at the hub of the MoPac System in North Little Rock, the yard contains 64 classification tracks with a capacity of 2,560 cars and handles 80 trains daily.





The White River line is the main link between Memphis and Kansas City.

generate approximately $41 million in annual revenues.

MoPac's maintenance programs totalled $299.4 million in 1976, compared to $258.7 million in 1975. Maintenance of equipment increased $21.8 million to $159.3 million and maintenance of way rose to $140.1 million, an increase of 16% above the 1975 level. The Missouri Pacific invested $131 million in capital improvements during 1976 with new equipment expenditures totalling $97.7 million. Capital outlays included the acquisition of 2,507 freight cars and 65 locomotives. In 1976, 494 miles of rail were laid, including 234 miles of new 136 pound welded rail. In addition, MoPac inserted over 1.5 million crossties, applied 1.8 million cubic yards of ballast and resurfaced 7,700 track miles. The 1977 program is expected to include 478 miles of rail with major emphasis in the western district in anticipation of continued increases in western coal movements. In 1977, capital expenditures will approximate $137 million.

MoPac's Transportation Control System continued to be improved and expanded. The System currently provides precise and timely information regarding every train and car in the Missouri Pacific System. Information on car units is available to shippers through direct access to the MoPac computer installation in St. Louis and indirectly through a network of customer service centers. Further progress has been made in the development of an automated car scheduling system which would permit individual loaded and empty freight cars to be scheduled dock to dock. In 1976, Missouri Pacific installed the industry's first totally centralized waybill rating system. In addition to computerized preparation of shipping documents, the system increases the efficiency of calculating freight charges by centralizing rating activities in St. Louis.

Mississippi River Transmission Corporation

The deep Anadarko Basin in Texas and western Oklahoma remains the Company's principal source of new gas production. These wells are being drilled to depths between 20,000 and 26,000 feet using some of the world's largest onshore drilling rigs. A recent discovery in the Texas Panhandle is believed to be the world's deepest commercial gas well. Located at the Mills Ranch field, the well was drilled to 24,482 feet, more than four miles deep.

Our natural gas pipeline company performed well in 1976. Net income rose to $15.9 million from $12.3 million in 1975. Revenues totalled $239 million against $193 million last year. The improvement in revenues was due primarily to higher prices received in the second half of the year. The amount of gas sold in 1976 rose to 226 billion cubic feet from 218 billion the previous year.

On October 1, 1976, a rate increase was put into effect for gas sold to the pipeline's distribution customers. A settlement agreement under which the pipeline would produce additional revenues of approximately $7.5 million annually has been submitted to the Federal Power Commission for its approval. Prices for gas sold directly to industrial customers were increased August 1, 1976. These sales represented 18% of gas volumes sold in 1976. Higher costs of purchased gas continue to be recovered through automatic escalation provisions on both utility and industrial sales.

MRTC supplies all of the natural gas sold in St. Louis. Although this winter's extremely cold temperatures complicated the pipeline's operations, it was able to serve its market without serious disruptions. This accomplishment was possible because of long range programs to expand our storage capability and to discover and develop new gas reserves. In the last four years, the Company has expended approximately $78 million for storage and related pipeline facilities and exploration. Gas stored in our large northern Louisiana fields provides between 25% and 30% of daily winter requirements. New gas supplies resulting from the exploration and development program contributed approximately 19% of total gas sales in 1976 compared to 17% in 1975 and 12% in 1974.

Development of our major discovery area at the Mills Ranch field in Texas is continuing. Currently, we obtain approximately 130 million cubic feet per day from eight wells. One well is producing from the Hunton and deeper Arbuckle formations. Another is being tested in the Arbuckle below 26,000 feet and we are testing an additional well in the 21,000 foot Hunton formation.

In southwest Oklahoma, four wells were completed to 13,000 feet. Arrangements to transfer the gas from these wells to the St. Louis area are in progress. In February, 1977, gas production from the Morrow formation in western Oklahoma began flowing into the pipeline system. A second deep well at this location is currently drilling to an objective depth of 24,500 feet. Of the 83 exploration and development wells initiated since the start of our program in 1972, 39 are successful producers and 10 are either testing or drilling.

Capital expenditures in 1976 were $20 million, down from $31.3 million in 1975. $5 million was expended for gas exploration and development and $9.8 million represented completion of underground storage projects. The balance was devoted principally to improvement and modernization of pipeline facilities including replacement of a major pipeline river crossing in the St. Louis area. These expenditures were financed through internal cash generation.

CATERPILLAR

River Cement Company

River Cement's production facilities are located on a 1,500 acre site on the Mississippi River 35 miles south of St. Louis. Limestone, which is quarried adjacent to the plant, is combined with other raw materials and burned at temperatures up to 3,000 degrees in two rotary kilns.

Net income from cement operations was $4.2 million compared to $3.9 million in 1975. Revenues increased 9.7% to $36.2 million due to improved prices and larger sales volumes.

While private residential housing starts showed significant improvement during the year, construction activity in the industrial and public sectors did not keep pace. Commercial construction decreased approximately 3% and public building contracts were down about 8%. Both categories are expected to recover in 1977.

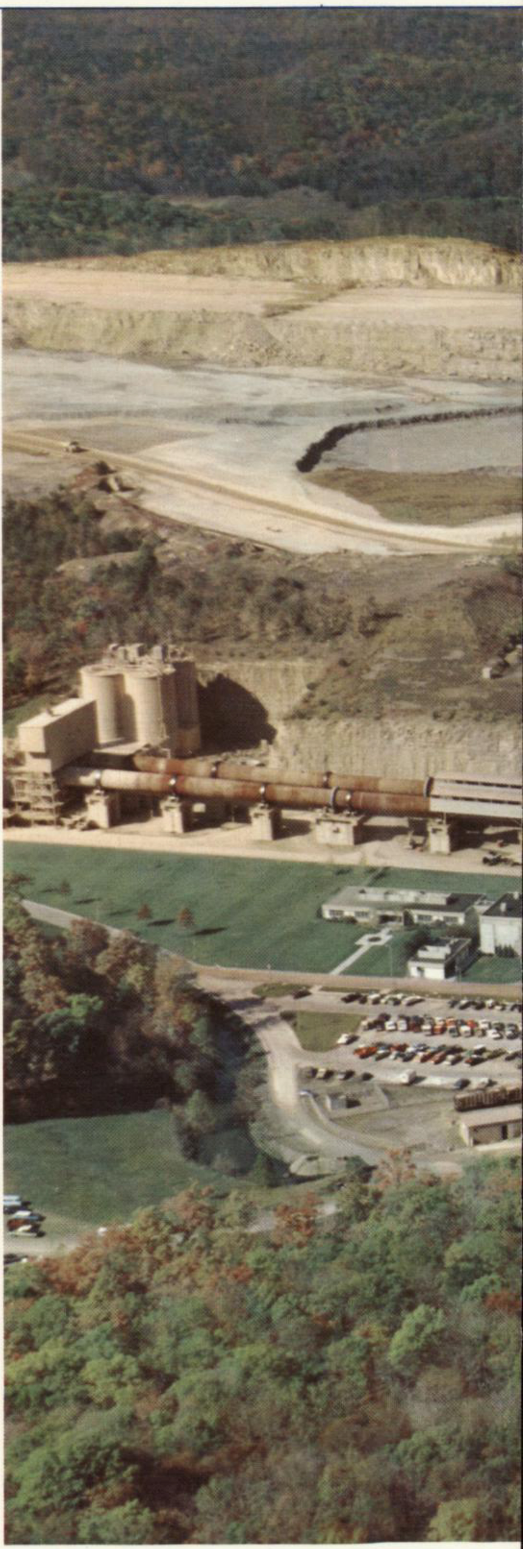
River Cement's good performance in 1976 can be attributed to continued emphasis on manufacturing efficiencies. Energy is the largest expense item in cement production and represents approximately 47% of our total per ton cost. Substantial kiln and grinding mill modifications made during the year have reduced fuel and electric power consumption significantly.

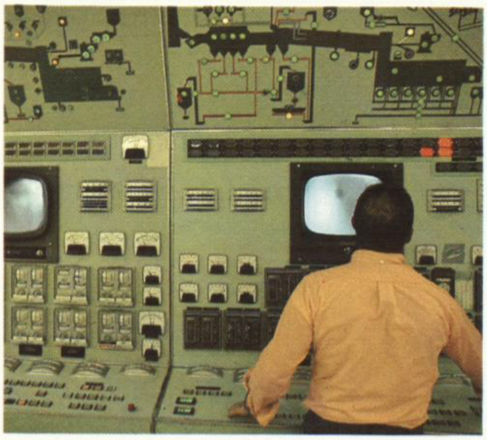
The cost of barging cement to our terminals in St. Louis, Memphis, Natchez and Cincinnati increased sharply in 1976 because of low water on the Mississippi and Ohio Rivers.

Capital expenditures were $2.5 million in 1976 compared to $1.6 million last year. From its inception, the Company has maintained a modern plant compatible with environmental objectives. We have continued to improve our pollution control capabilities. The plant's design and favorable location in an area remote from a population center have helped to keep these costs moderate. In 1976, we completed the installation of a new dust collection system at a cost of $2 million. These facilities are now in service and substantially complete the necessary expenditures to comply with existing air pollution and environmental regulations.

In 1977, improving economic conditions should permit a moderate expansion in cement consumption. Based upon expected residential and industrial construction, the Portland Cement Association is projecting a 4% - 5% rise in cement usage in 1977.

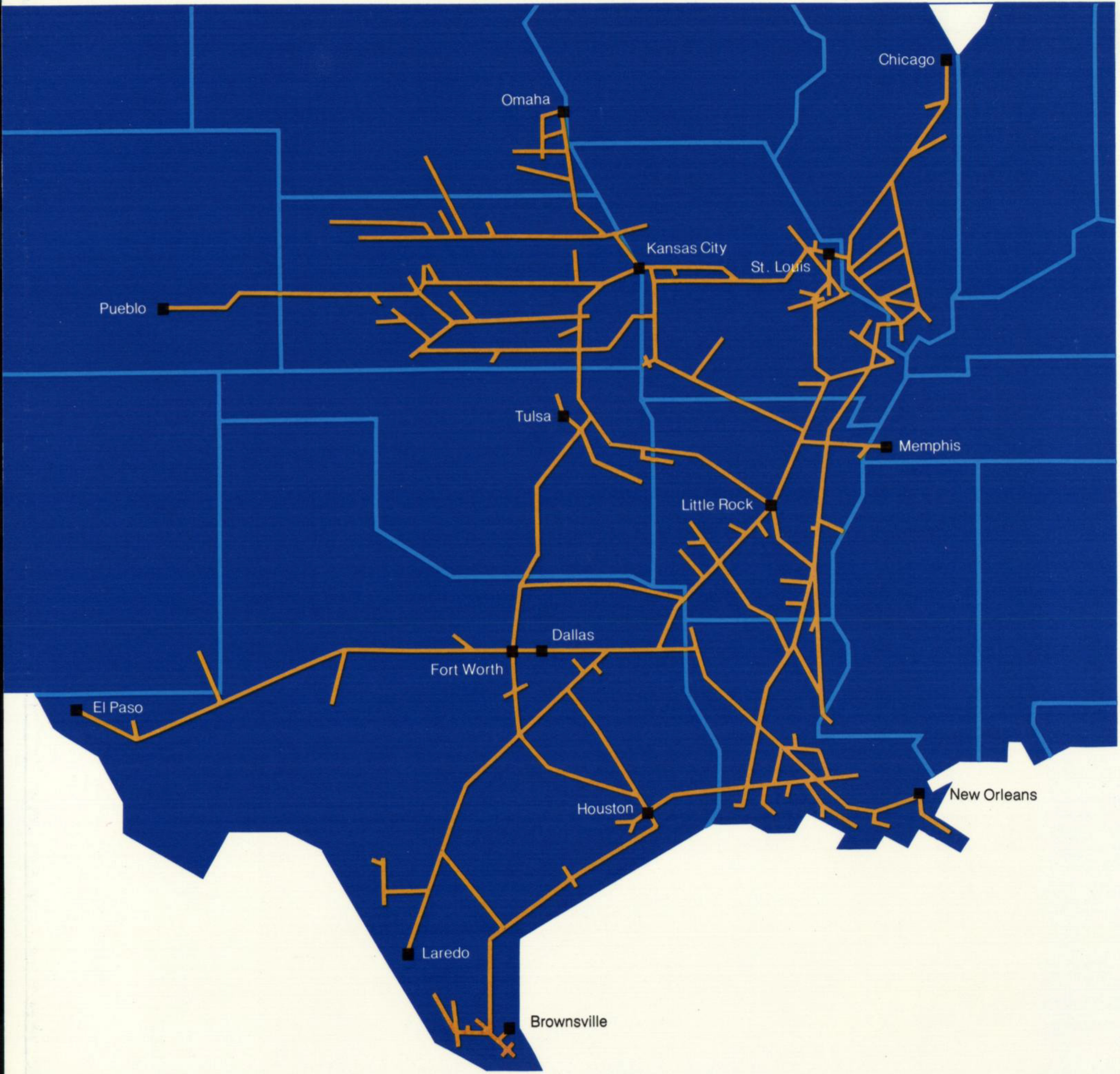
In view of anticipated price improvements and higher sales volumes, we expect 1977 will be a satisfactory year for River Cement.





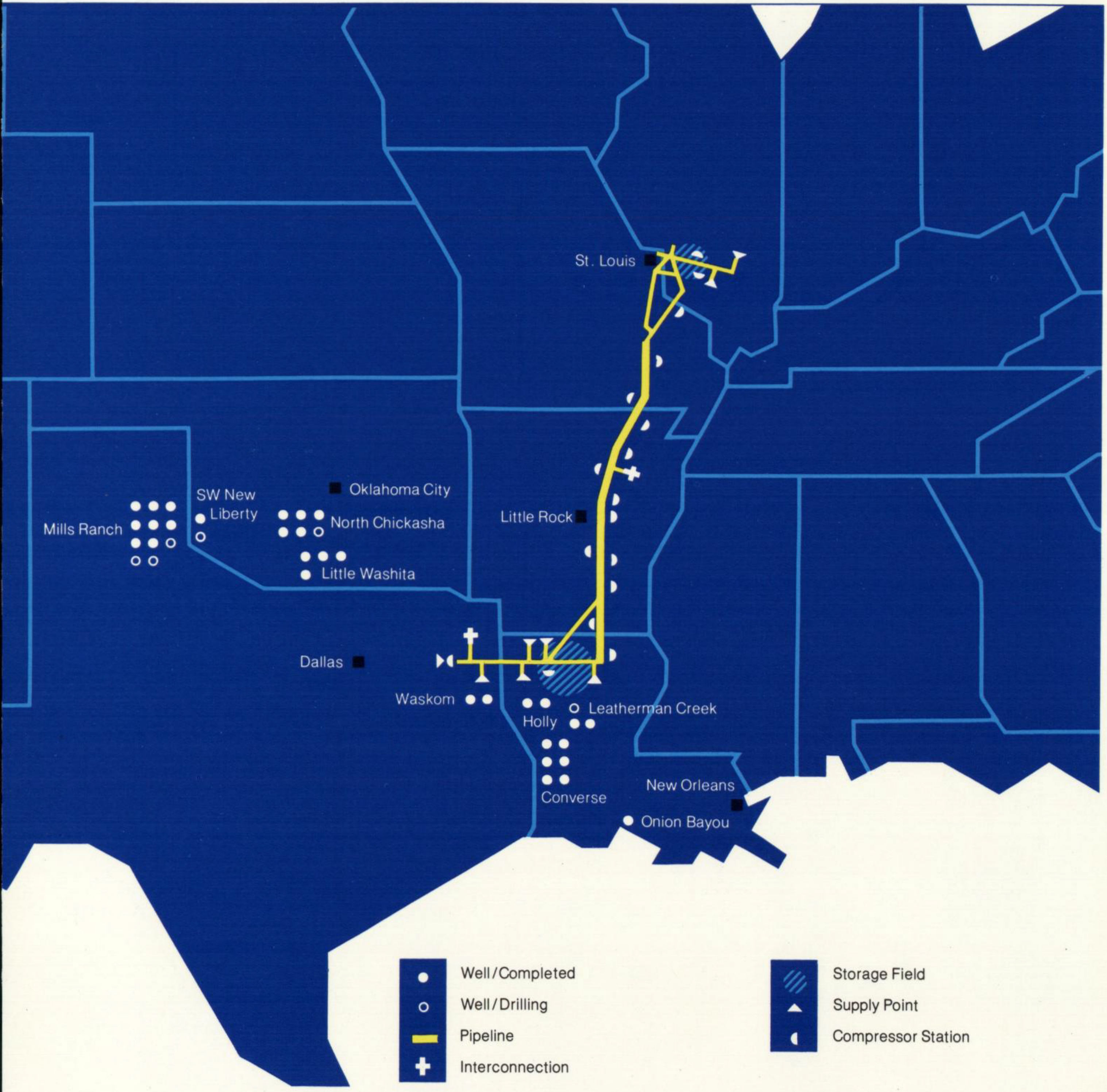
Missouri Pacific Railroad System

Railroad miles	11,674
Truck route miles	18,000
Freight car fleet	58,741
Locomotive fleet	1,156
Employees	21,094


Chicago
Omaha
Kansas City
St. Louis
Pueblo
Tulsa
Memphis
Little Rock
Dallas
Fort Worth
El Paso
Houston
New Orleans
Laredo
Brownsville

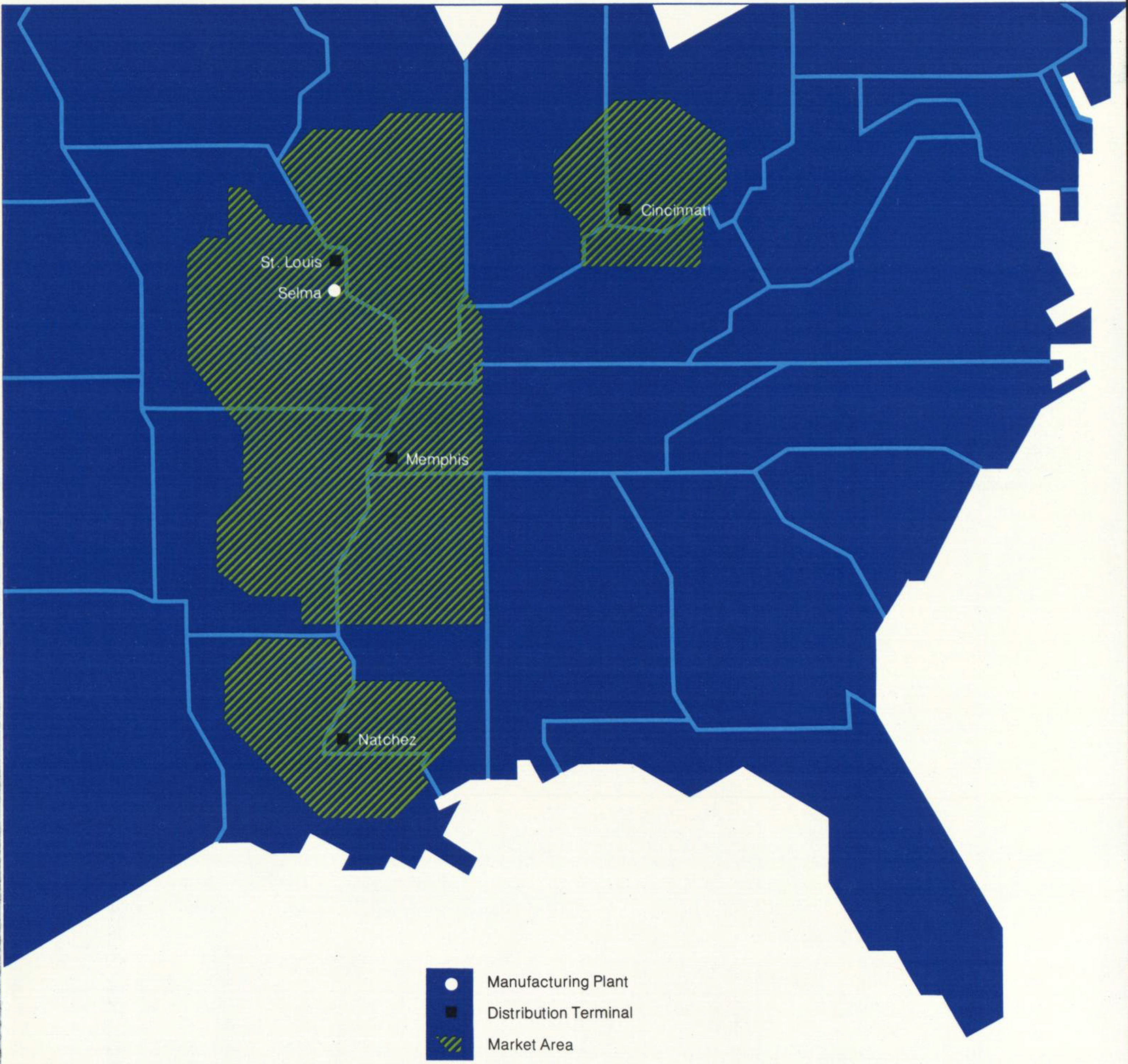
Mississippi River Transmission Corporation

Main pipeline miles	1,662
Compressor horsepower	110,000
Pipeline capacity per day — cu. ft.	1,000,000,000
Total gas in storage on November 1, 1976 — cu. ft.	127,000,000,000
Employees	357


St. Louis
SW New Liberty
Oklahoma City
Mills Ranch
North Chickasha
Little Rock
Little Washita
Dallas
Waskom
Leatherman Creek
Holly
Converse
New Orleans
Onion Bayou
Well/Completed
Well/Drilling
Pipeline
Interconnection
Storage Field
Supply Point
Compressor Station

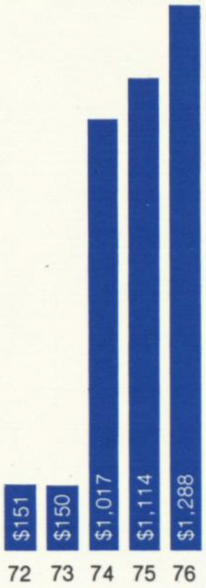
River Cement Company

Production capacity — tons annually	1,200,000
Cement barges	15
Barge capacity — total tons	29,300
Cement storage capacity — total tons	93,000
Raw materials reserve — years	100
Employees	257

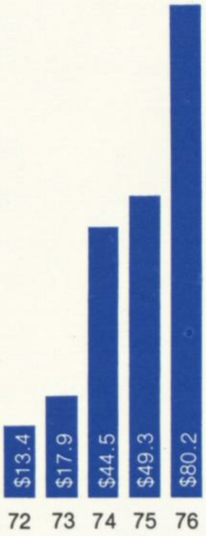

Cincinnati
St. Louis
Selma
Memphis
Natchez
○ Manufacturing Plant
■ Distribution Terminal
▨ Market Area

Financial Review

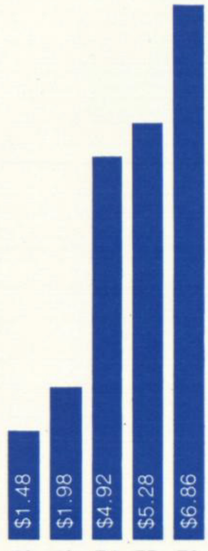
Total Revenues
Millions



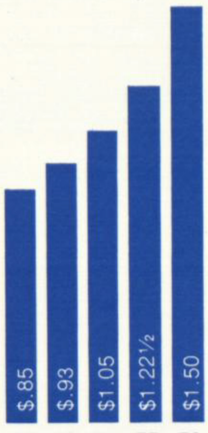
Net Income
Millions



Net Income Per Share
Dollars



Cash Dividends Paid Per Share
Dollars



Consolidated financial statements are presented on pages 19 through 22. The subsidiaries' individual results are detailed on comparative income statements beginning on page 34.

Consolidated net income for 1976 rose 63% to $80.2 million ($6.86 per share primary and $6.17 fully diluted) compared to $49.3 million ($5.28 per share primary and $4.79 fully diluted) in 1975. Total revenues for 1976 were $1.3 billion, up 16% from 1975.

In June, the Company completed an exchange offer for the publicly held shares of the Missouri Pacific Railroad System. This transaction increased our ownership of the Railroad from 62% to 92%. We received 4 million railroad shares in exchange for 3.7 million newly-issued common shares of the Company. In July, 4 million shares of Missouri Pacific Railroad convertible preferred stock held by the Company were converted into an equal number of the Railroad's common shares. In December, the remaining 429,000 shares of MoPac convertible preferred were called, at the price of $20 per share. As a result, 415,000 or 96.7% of the preferred shares were converted into MoPac common stock. The Company currently holds 12.4 million or 92.3% of the Railroad's outstanding common shares.

Total outstanding common shares of the parent company increased to 13,189,339 at year end 1976 from 9,036,231 at the end of 1975.

The merger of The Texas and Pacific and the Chicago & Eastern Illinois Railroad into the Missouri Pacific Railroad was consummated in October. The Company's consolidated statements have reflected the issuance of the additional 973,000 Railroad shares since October 24, 1974, the date the merger was approved by shareholders of the railroads.

Accounting adjustments resulting from the consolidation of the Missouri Pacific Railroad increased our 1976 net income by $4.3 million ($.37 per share primary and $.33 per share fully diluted) and our 1975 net income by $6.3 million ($.70 per share primary and $.62 fully diluted). Your attention is invited to Note 3 on page 27 regarding the effect of the Tax Reform Act on the 1977 purchase accounting adjustment. A quarterly summary of 1976 purchase accounting calculations appears on page 18.

1976 capital expenditures totalled $154 million, which includes railroad outlays of $131 million. During the year, MoPac issued $98 million of new lease and equipment obligations. The capital requirements of Mississippi River Transmission Corporation and River Cement Company were provided by internal cash flow.

Consolidated bank debt and unsecured short term notes were $20 million at year end, reduced from $38 million at year end 1975 and $108 million outstanding at December 31, 1974. During 1976, consolidated debt retirements totalled $76 million reflecting $35.6 million of equipment debt amortization, $18 million of term bank debt prepayments and a $22.7 million reduction of bonded debt through open market purchases. Sinking fund requirements have been anticipated well into the future.

The Company's financial position continues to be strong with 1976 consolidated working capital in excess of $56 million, up from $51 million in 1975 and $27 million in 1974. Financial resources provided by operations increased to $165 million compared with $133 million in 1975. Cash and short term investments totalled $132 million at year end 1976, an increase of $24 million from the end of 1975.

Lines of Business

Missouri Pacific Corporation

The Company is engaged in the railroad, natural gas transmission and exploration, and portland cement industries through the following subsidiaries:

Missouri Pacific Railroad System

Missouri Pacific operates 11,674 miles of mainline track in a twelve state service area. The System's territory includes the lower valleys of the Missouri and Mississippi Rivers and the major grain producing sections of East Texas, the Gulf Coast and Middle West. Supplementing the rail lines is a network of 18,000 miles of truck routes. Missouri Pacific is a 92% owned subsidiary.

Mississippi River Transmission Corporation

Transmission operates a natural gas pipeline system from northern Louisiana to St. Louis. The system includes approximately 1,662 main pipeline miles and 504 miles of branch and gathering lines. Transmission sells gas to public utilities for resale and directly to industrial customers in Missouri, Illinois and Arkansas. Sales to utility customers are made at rates regulated by the Federal Power Commission while industrial sales prices are set by negotiation. Transmission is a wholly owned subsidiary.

River Cement Company

River Cement produces portland cement in a modern and highly automated 1.2 million ton annual capacity plant located 35 miles south of St. Louis on the Mississippi River. Principal cement markets are in the St. Louis, Memphis, Cincinnati and Natchez areas. Cement is transported to distribution terminals by fifteen company owned barges. River Cement is a wholly owned subsidiary.

The contribution to the Company of each line of business is tabled below (amounts in millions):

	1976		1975		1974		1973		1972	
	Amount	**%**	Amount	%	Amount	%	Amount	%	Amount	%
Total Sales and Revenues:										
Railroad	**$1,013.7**	**79%**	$ 888.6	80%	$ 843.5	83%				
Natural gas pipeline	**238.6**	**18**	192.2	17	140.7	14	$113.6	76%	$109.0	72%
Cement[1]	**36.2**	**3**	33.0	3	32.6	3	28.5	19	31.1	21
Other[2]	**—**	**—**	—	—	—	—	7.6	5	10.4	7
	$1,288.5	**100%**	$1,113.8	100%	$1,016.8	100%	$149.7	100%	$150.5	100%
Income Before Federal Income Taxes, Minority Interest and Extraordinary Items:										
Railroad	**$111.1**	**80%**	$ 83.8	82%	$80.8	82%				
Natural gas pipeline	**28.3**	**20**	18.7	18	16.8	17	$16.4	64%	$14.1	70%
Cement[1]	**6.9**	**5**	6.7	7	8.0	8	6.3	24	3.6	18
Other[2,3]	**(7.0)**	**(5)**	(7.6)	(7)	(6.5)	(7)	3.1	12	2.5	12
	$139.3	**100%**	$101.6	100%	$99.1	100%	$25.8	100%	$20.2	100%

[1] Includes discontinued concrete and building materials businesses in 1973 and 1972.

[2] Includes dividend income from Missouri Pacific presently eliminated in consolidation and results of discontinued oil and gas production business.

[3] Includes parent company overhead and interest expense.

Missouri Pacific Corporation and Subsidiaries

Quarterly Financial Information

Unaudited

		First	Second	Third	Fourth	Total
Sales and Revenues	1976	$316,144	$303,232	$314,277	$354,800	$1,288,453
(Thousands of Dollars)	1975	285,463	259,321	261,409	307,601	1,113,794
Income Before Federal Income Taxes and Minority Interest (Thousands of Dollars)	1976	25,659	30,575	35,549	47,536	139,319
	1975	14,884	23,874	24,568	38,262	101,588
Net Income	1976	12,418	16,219	21,630	29,953	80,220
(Thousands of Dollars)	1975	7,650	11,789	11,782	18,054	49,275
Earnings Per Share	1976 Primary	1.31	1.56	1.66	2.33	6.86
	1975	.82	1.27	1.27	1.92	5.28
	1976 Fully diluted	1.14	1.39	1.52	2.12	6.17
	1975	.79	1.19	1.13	1.68	4.79
Dividends Paid Per Share	1976	.35	.35	.40	.40	1.50
	1975	.30	.30	.30	.32½	1.22½
New York Stock Exchange Prices	1976 High	35⅛	37⅛	37¼	41	
	Low	22⅝	30½	31⅞	32	
	1975 High	20½	22⅞	22	23¼	
	Low	16⅞	19¼	18¼	18¼	
Purchase Accounting Adjustments Per Share (See Note 2 on page 25)	1976 Primary	.07	.12	.14	.04	.37
	1975	.19	.18	.15	.18	.70
	1976 Fully diluted	.06	.10	.13	.04	.33
	1975	.18	.17	.12	.15	.62

See Note 11 on page 32 regarding quarterly financial information.

Missouri Pacific Corporation and Subsidiaries

Consolidated Statements of Income and Retained Earnings

In Thousands of Dollars

	Year Ended December 31	1976	1975
Sales and Revenues	Railroad operations	$1,013,668	$ 888,546
	Other operations	274,785	225,248
		1,288,453	1,113,794
Expenses	Railroad operations	762,440	672,246
	Other operations	216,736	180,833
	Depreciation, depletion and amortization	39,100	39,022
	Interest expense	62,720	59,085
	Taxes other than federal income	83,667	70,062
		1,164,663	1,021,248
	Other income, net	15,529	9,042
	Income before federal income taxes and minority interest	139,319	101,588
	Federal income taxes:		
	Current	46,431	33,505
	Deferred	19,255	15,551
	Investment tax credit	(18,668)	(14,688)
		47,018	34,368
	Income before minority interest	92,301	67,220
	Minority interest	12,081	17,945
Net Income		$ 80,220	$ 49,275
Net Income Per Share	Primary	$6.86	$5.28
	Fully diluted	$6.17	$4.79
Retained Earnings	Retained earnings, beginning of year	$ 139,720	$ 101,510
	Net income	80,220	49,275
	Cash dividends—$1.50 per share, 1976; $1.22½ per share, 1975	(17,719)	(11,065)
	Retained earnings, end of year	$ 202,221	$ 139,720

See Notes to Consolidated Financial Statements, pages 24 to 33.

Missouri Pacific Corporation and Subsidiaries

Consolidated Balance Sheet

In Thousands of Dollars

Assets

	December 31	1976	1975
Current Assets	Cash and temporary cash investments	$ 131,904	$ 107,689
	Accounts receivable	116,818	104,476
	Inventories, materials and supplies	63,636	61,906
	Deferred federal income tax benefits	18,036	14,818
	Other	22,647	13,229
		353,041	302,118
Properties	Railroad	1,121,888	1,247,636
	Gas transmission and storage	266,744	252,301
	Cement manufacturing and distribution	62,737	60,630
	Gas production and other	18,613	16,446
		1,469,982	1,577,013
	Less—Accumulated depreciation	(225,383)	(322,678)
		1,244,599	1,254,335
Investments and Other Assets	Investment in terminal and other companies	41,923	41,713
	Capital, insurance and other funds	20,697	27,547
	Other	9,816	6,226
		72,436	75,486
		$1,670,076	$1,631,939

See Notes to Consolidated Financial Statements, pages 24 to 33.

Liabilities

	December 31	1976	1975
Current Liabilities	Accounts and wages payable	$ 133,784	$ 124,224
	Commercial paper	14,700	—
	Notes payable to banks	5,000	20,000
	Current maturities of long term debt	41,459	35,731
	Taxes accrued:		
	Federal income	18,598	10,671
	Other	21,600	15,257
	Accrued interest and dividends payable	27,759	28,140
	Other	34,128	16,860
		297,028	250,883
Long Term Debt (See Schedule on page 23)		790,650	832,623
Other Liabilities and Deferred Credits	Deferred federal income taxes	64,173	99,791
	Casualty reserves and other liabilities	80,839	65,784
		145,012	165,575
Equity of Minority Shareholders in Consolidated Subsidiary		41,019	180,803
Shareholders' Equity	Preferred Stock, no par value— Authorized 2,500,000 shares; issued, none	—	—
	Common Stock, $5 par value— Authorized 20,000,000 shares; issued 13,359,105 shares, 1976; 9,267,225 shares, 1975	66,796	46,336
	Capital surplus	130,171	19,837
	Retained earnings	202,221	139,720
		399,188	205,893
	Less—Treasury stock, at cost, 169,766 shares, 1976; 230,994 shares, 1975	(2,821)	(3,838)
		396,367	202,055
Commitments and Contingent Liabilities			
		$1,670,076	$1,631,939

Missouri Pacific Corporation and Subsidiaries

Consolidated Statement of Changes in Financial Position

In Thousands of Dollars

	Year Ended December 31	1976	1975
Financial Resources Were Provided By	Net income	$ 80,220	$ 49,275
	Income charges not affecting working capital:		
	Depreciation, depletion and amortization	39,100	39,022
	Deferred federal income taxes	22,473	16,677
	Minority interest	12,081	17,945
	Increase in long term casualty and other reserves	8,755	6,892
	Other, net	1,976	3,129
	Financial resources provided by operations	164,605	132,940
	Proceeds from long term borrowings	77,386	115,552
	Salvage value of property retired	8,256	10,353
		250,247	258,845
Financial Resources Were Used For	Property additions	153,565	137,215
	Reduction of long term debt	75,211	70,273
	Cash dividends	17,719	11,065
	Cash dividends paid to minority shareholders of consolidated subsidiary	2,441	5,230
	Capital fund deposit increase (decrease)	(7,205)	10,519
	Other, net	1,476	182
	Additional investment in Missouri Pacific (Note 2)	2,262	—
		245,469	234,484
Increase in Working Capital		$ 4,778	$ 24,361
Analysis of Changes in Working Capital	Increase (decrease) in current assets:		
	Cash and temporary cash investments	$ 24,215	$ 1,855
	Accounts receivable	12,342	8,816
	Inventories	1,730	9,707
	Other	12,636	(3,063)
		50,923	17,315
	(Increase) decrease in current liabilities:		
	Accounts and wages payable	(9,560)	1,231
	Notes payable to banks and commercial paper	300	15,000
	Current maturities of long term debt	(5,728)	(3,152)
	Federal income and other taxes accrued	(14,270)	(2,683)
	Accrued interest and dividends payable	381	(1,650)
	Other	(17,268)	(1,700)
		(46,145)	7,046
	Increase in working capital	$ 4,778	$ 24,361

See Notes to Consolidated Financial Statements, pages 24 to 33.

Missouri Pacific Corporation and Subsidiaries

Long Term Debt

In Thousands of Dollars

(Note 5)

	December 31	1976	1975
Missouri Pacific Corporation	5-1/8% Debentures due 1978[1]	$ 9,914	$ 10,853
	5-3/4% Debentures due 1980[1]	9,151	11,177
	8% Convertible Subordinated Debentures due 1994[1]	16,635	16,912
	8% Convertible Subordinated Debentures due 1995[1]	17,046	25,000
	Bank Notes	—	12,000
Mississippi River Transmission Corporation	5% Debentures due 1981[1]	1,271	1,301
	9-3/4% Debentures due 1990[1]	28,400	30,600
	11-1/2% Senior Notes due 1978 through 1990	25,000	25,000
	11% Senior Notes due 1978 through 1990	35,000	35,000
Missouri Pacific Railroad System[3]	**Missouri Pacific Railroad Company:**		
	4-1/4% First Mortgage Bonds due 1990[1]	106,706	118,147
	4-1/4% First Mortgage Bonds due 2005[1]	122,351	126,235
	4-3/4% General Mortgage Bonds due 2020 and 2030[1,2]	101,808	103,154
	5% Income Debentures due 2045[2]	100,016	100,016
	5% First and Second Mortgage Bonds due 2000	18,965	18,965
	3-7/8% General & Refunding Mortgage Bonds due 1985[1]	4,208	6,663
	3-5/8% KO&G First Mortgage Bonds due 1980[1]	1,427	1,429
	5% Income Debentures due 2054[1]	1,704	1,704
	4% to 11-1/4% Equipment Obligations due 1978 through 1991	278,256	238,806
	Bank Loan	—	6,000
	Majority Owned Subsidiaries:		
	4-1/2% to 9% Equipment Obligations due 1978 through 1995	17,584	19,627
	Total Principal	895,442	908,589
	Less Unamortized Discount	104,792	75,966
	Total Consolidated Debt	$790,650	$832,623

[1] Have sinking fund requirements

[2] Contingent interest

[3] Substantially all properties of the Missouri Pacific Railroad System are covered either by liens of the mortgages or under the equipment obligations.

Missouri Pacific Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Consolidation principles

The accompanying consolidated financial statements include the accounts of Missouri Pacific Corporation (the Company) and all majority owned subsidiaries, including: Missouri Pacific Railroad Company and its subsidiaries (Missouri Pacific), Mississippi River Transmission Corporation and subsidiary (Transmission), and River Cement Company (River Cement).

Missouri Pacific's investments in less than majority owned terminal railroad companies (joint ventures) and other affiliated companies, where Missouri Pacific has the ability to exercise significant influence over their operating and financial policies, are accounted for under the equity method.

Properties and depreciation

Railroad properties of Missouri Pacific owned at the date the Company acquired or added to its majority interest in Missouri Pacific are stated at cost determined in accordance with purchase accounting rules to the extent of the Company's ownership interest therein (see Note 2). The remainder of such properties are stated primarily at estimated original cost, as determined by January 1, 1955 Interstate Commerce Commission valuations, plus additions and betterments at cost and less retirements since the dates of valuation. Depreciation is computed using the straight-line method and various group rates prescribed by the Interstate Commerce Commission. Depreciation provisions during 1976 and 1975 were at rates of approximately 3.8% and 3.7%, respectively, for equipment and 2.5% for depreciable road properties. For rails, ties and other track materials, "replacement" accounting is followed. Under this method, replacements in kind are charged to expense while additions and betterments are capitalized. Such properties are not depreciated and the amounts capitalized are charged against income only when the related properties are retired. At December 31, 1976 and 1975 non-depreciable railroad properties, including land and land rights, were approximately $461,000,000 and $474,000,000 respectively.

Gas transmission and storage properties and cement manufacturing and distribution properties are stated at cost and are depreciated on the straight-line method. Gas production properties include gas exploration and development costs under the full cost method of accounting. Under this method, all exploration and development costs are capitalized (to the extent of the estimated value of recoverable reserves) and are amortized on a unit of production method over the lives of the recoverable reserves. During 1976 and 1975, respectively, provisions for depreciation and amortization as a percentage of average depreciable plant balances were 3.7% and 3.6% for gas transmission and storage properties, 10.3% and 11.7% for gas producing properties, and 4.2% and 4.3% for cement manufacturing and distribution facilities. Maintenance and repairs of properties are charged to expense and major renewals and betterments are capitalized. Normal retirements of depreciable property are charged to the appropriate depreciation reserve at cost less salvage.

Income taxes

Taxes are provided on the basis of items included in the income statement regardless of the period when such items are reported for tax purposes. Investment tax credit is recognized under the flow through method.

Debt, discount and related expense

Discount and expense applicable to long term debt are deferred and amortized over the lives of the respective issues using primarily the interest method. Unamortized discount is deducted from the face amount of such debt (see Note 5). Gain on reacquisition of bonds is generally recorded as income.

Pensions

The Company, Transmission and River Cement have non-contributory pension plans which cover substantially all of their full-time employees. Pension cost accruals are actuarially determined and include normal costs and amortization of prior service costs over a period of ten years. The companies' policy is to fund currently pension costs accrued.

Missouri Pacific has a non-contributory pension plan for substantially all non-union employees (see Note 7). Pension cost accruals include normal costs, amortization of minority interests in prior service costs over a 35-year period ending January 1, 2001, and interest on the recorded unfunded pension liability. Missouri Pacific's policy is to fund currently normal costs accrued and to fund prior service costs over a 30-year period ending January 1, 2006.

Casualty losses

Casualty losses of Missouri Pacific that are not covered by insurance are accrued and charged to expense as incurred (see Note 9).

Inventories

Inventories are stated at the lower of cost or market. At December 31, inventories were comprised of the following (in thousands):

	1976	1975
Materials and supplies (Average cost)	**$52,376**	$44,792
Gas stored underground (LIFO cost)	**8,606**	14,820
Cement (LIFO cost)	**2,654**	2,294
	$63,636	$61,906

If LIFO inventories had been valued at current replacement costs, they would have been increased by $16,263,000 for 1976 and $9,806,000 for 1975.

Note 2 Acquisition

On December 31, 1975, the Company owned 63.6% of Missouri Pacific's common stock, 58.8% of their preferred and 61.5% of total common and preferred. As a result of the exchange offer completed on June 25, 1976, the Company acquired 1,985,512 shares of Missouri Pacific common, 1,367,454 shares of Missouri Pacific preferred, 610,842 shares of Chicago & Eastern Illinois Railroad Company (C&EI) common and 12,370 shares of The Texas and Pacific Railway Company (T&P) common. In exchange the Company issued 3,728,166 shares of its common stock which were assigned a value of $122,598,000 based on average market prices during the exchange offer. On July 16, 1976, the Company converted all of its Missouri Pacific preferred, share for share, into Missouri Pacific common.

On October 15, 1976, the merger of T&P and C&EI into Missouri Pacific was finalized. In the transaction, Missouri Pacific issued 972,772 shares of common stock in exchange for all the outstanding stock of the T&P and C&EI. The Company received 789,441 of these shares. This merger has been given effect to in the Company's financial statements since October 24, 1974, the date of stockholder approval.

On December 2, 1976, Missouri Pacific called for the redemption, effective January 17, 1977, of its outstanding preferred shares. As a result, 13,556 shares were redeemed by Missouri Pacific and the remainder were converted share for share into Missouri Pacific common. At December 31, 1976, after giving effect to all the transactions above, Missouri Pacific had 13,466,206 shares of common outstanding of which the Company owned 12,435,708 shares or 92.3%.

Purchase accounting

The financial statements of Missouri Pacific are consolidated with those of the Company under the purchase method of accounting, which requires establishment of minority interests at their equity in Missouri Pacific's net book value, elimination of the Company's investment in Missouri Pacific, and an allocation to the railroad's net properties of the excess of the Company's equity in Missouri Pacific at acquisition (determined on the basis of the fair values of its assets and liabilities) over the cost thereof. The acquisition of Transmission's minority interest has also been accounted for under the purchase method. As a result, the excess of cost over net book value acquired has been allocated to Transmission's gas exploration properties.

As a result of applying purchase accounting in connection with the additional equity obtained through the exchange offer (see above), the following adjustments were recorded as of June 30, 1976 (in thousands):

Decrease minority interest	$148,965
Decrease long term debt	33,653
Decrease deferred federal income taxes	61,381
Increase other reserves	(7,329)
Decrease properties	(264,327)
Decrease accumulated depreciation	152,517
Increase common stock	(18,641)
Increase capital surplus	(103,957)
Financial resources used for acquisition	$ 2,262

The effects of purchase accounting adjustments on net income were as follows:

Thousands of dollars except per share	1976	1975
Reduce depreciation expense	**$17,661**	$16,221
Reduce pension expense	**338**	252
Reduce other income	**(7,664)**	(1,033)
Increase interest expense	**(1,495)**	(1,205)
Increase federal income tax expense	**(4,558)**	(7,915)
Increase net income	**$ 4,282**	$ 6,320
Increase earnings per share:		
Primary	**$.37**	$.70
Fully diluted	**.33**	.62

Pro forma results of operations

The pro forma results of operations presented below are based on the assumption that the ownership interest at December 31, 1976 (as described previously) was achieved as of January 1, 1975 and 1976 and that the additional shares issued to achieve such interest were outstanding during each period. They also include purchase accounting adjustments based on the December 31, 1976 ownership interest and an elimination of income taxes on intercompany dividends.

Thousands of dollars except per share	1976	1975
Net income	**$86,676**	$64,920
Net income per share:		
Primary	**$6.64**	$5.08
Fully diluted	**6.05**	4.73

Note 3 Federal Income Taxes

Total federal income tax expense related to income before federal income taxes and minority interest amounted to $47,018,000 in 1976 and $34,368,000 in 1975, an effective tax rate of 33.7% and 33.8%, respectively. The difference between effective rates and the federal rate of 48% is primarily due to investment tax credit.

Provisions for deferred federal income taxes result from timing differences in the recognition of revenue and expense items for tax and financial statement purposes. The sources and tax effect of these differences are as follows (in thousands):

	1976	1975
Excess of tax over book depreciation and amortization	**$25,494**	$21,636
Financial statement expense accruals for casualties and other matters which are not deducted for tax purposes until paid	**(6,553)**	(4,042)
Other	**314**	(2,043)
Provision for deferred federal income taxes	**$19,255**	$15,551

The Tax Reform Act of 1976 contains a provision which will permit railroads to utilize available investment tax credits to offset up to 100% of their federal income tax liability in 1977 and 1978. Beginning in 1979, the investment tax credit limitation will be reduced 10% annually until it returns to a 50% limitation in 1983. At December 31, 1976, investment tax credit carryovers of approximately $23,000,000 are available to Missouri Pacific for utilization in such manner. Of the $23,000,000 carryover, $1,700,000 will expire in 1981, $5,700,000 in 1982 and $15,600,000 in 1983, if not used.

A significant portion of these carryovers arose prior to the Company's acquisitions of Missouri Pacific. Therefore, the Company's share (approximately $19,000,000) of pre-acquisition carryovers utilized in the future will not be reflected as a reduction of tax expense but will be recognized as an asset on a retroactive basis. The costs originally allocated to railroad properties will be reduced accordingly.

Note 4 Earnings Per Share

Earnings and the average number of shares entering into the calculation of primary and fully diluted earnings per share are as follows (in thousands):

	1976	1975
Earnings:		
Net income	**$80,220**	$49,275
Less reduction of earnings from assumed conversion of Missouri Pacific's preferred stock into common stock	**1,820**	1,457
Earnings for primary calculation	**78,400**	47,818
Add interest and amortization of original issue discount, net of tax, for the assumed conversion of the Company's convertible debentures	**1,758**	1,374
Earnings for fully diluted calculation	**$80,158**	$49,192
Average number of shares:		
Average shares of common stock outstanding	**11,351**	9,032
Add common share equivalents resulting from outstanding stock options	**71**	25
Shares for primary calculation	**11,422**	9,057
Add common shares that would have been issued assuming conversion of the Company's convertible debentures	**1,575**	1,218
Shares for fully diluted calculation	**12,997**	10,275

Note 5 Long Term Debt

The Company's convertible subordinated debentures due 1994 and 1995 may be converted at the option of the holder into common stock of the Company at the price of $27 and $22.50 per share, respectively. The Indenture under which the Company's debentures due 1980 were issued contains restrictions as to the declaration or payment of dividends on common stock; at December 31, 1976, $92,131,000 of retained earnings were free of such restrictions.

The Company has a commitment from a major bank under which it may borrow up to $20,000,000 until November 1, 1978. Any borrowings made will be repayable in annual installments beginning November 1, 1979 through 1981 and will bear interest at the prevailing prime rate for the first two years after the date of the borrowings and at ¼% above prime thereafter.

Unamortized discount, which is primarily due to fair valuation of debt in accordance with purchase accounting rules (see Note 2), was as follows at December 31 (in thousands):

	Imputed interest rate	**1976**	1975
Missouri Pacific Corporation:			
8% Convertible Subordinated Debentures due 1994	11.1%	**$ 3,800**	$ 4,084
Missouri Pacific Railroad Company:			
4-1/4% First Mortgage Bonds due 1990	8.9%	**18,177**	14,069
4-1/4% First Mortgage Bonds due 2005	9.0%	**28,393**	19,800
4-3/4% General Mortgage Bonds due 2020 and 2030	9.8%	**24,798**	16,715
5% Income Debentures due 2045	10.0%	**23,841**	15,776
5% First and Second Mortgage Bonds due 2000	9.1%	**3,599**	2,430
Other		**2,184**	3,092
		$104,792	$75,966

Long term debt (net of discount) maturing 1978 through 1981 is $53,487,000, $42,845,000, $50,697,000 and $38,876,000, respectively.

Note 6
Common Stock and Stock Options

Changes in shares outstanding and the related common stock, capital surplus and treasury stock accounts during 1975 and 1976 were as follows (in thousands):

	Common stock		Capital	Treasury stock	
	Shares	Amount	surplus	Shares	Amount
Balance, January 1, 1975	9,267	$46,336	$ 19,893	241	$3,997
Exercise of stock options	—	—	(56)	(10)	(159)
Balance, December 31, 1975	9,267	46,336	19,837	231	3,838
Issued for exchange offer	3,728	18,641	103,957	—	—
Conversion of debentures	364	1,819	6,410	—	—
Exercise of stock options	—	—	(33)	(61)	(1,017)
Balance, December 31, 1976	13,359	$66,796	$130,171	170	$2,821

The authorized shares of common stock were increased from 12,500,000 at December 31, 1975 to 20,000,000 at December 31, 1976.

A summary of changes under the Company's stock option plan for the years 1975 and 1976 is as follows:

	Shares under option	Price range
Balance, January 1, 1975	209,070	$ 9.38 - 18.50
Exercised	(9,570)	9.38 - 13.75
Expired	(2,000)	18.50
Balance, December 31, 1975	197,500	13.75 - 18.50
Exercised	(61,210)	13.75 - 18.50
Expired	(4,000)	16.38 - 18.50
Balance, December 31, 1976	132,290	$16.38 - 18.50

Options exercisable at January 1, 1975 and at December 31, 1975 and 1976 were 75,790, 107,540 and 79,450 shares, respectively. No additional options can be granted under the plan.

Note 7 Retirement Plans

Pension expense as described in Note 1 resulted in charges to operating expense of $7,836,000 in 1976 and $4,988,000 in 1975.

Missouri Pacific amended its pension plan, effective January 1, 1976. The amendments extend pension plan eligibility to substantially all non-union employees of the companies and conform the plan to the requirements of the Employee Retirement Income Security Act of 1974 which include minimum funding and vesting provisions. Pension expense increased in 1976 as a result of plan amendments and changes in actuarial assumptions as to interest earnings, salaries and railroad retirement benefits.

Note 8 Leased Assets and Lease Commitments

Missouri Pacific leases a general office building, computer equipment and transportation equipment under long term and contingent lease agreements. Certain of the leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" (FAS 13) which was issued in November, 1976 by the Financial Accounting Standards Board. FAS 13 defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee and requires that, for such leases entered into on or after January 1, 1977, the present value of minimum lease payments be recorded as an asset and an obligation. Capitalization of such leases existing at December 31, 1976 is not mandatory until 1981, at which time retroactive application is required.

A summary of rental expense charged to railroad operations is presented below. For comparative purposes, amounts for 1975 have been reclassified to reflect the accounting treatment prescribed by FAS 13. Such amounts were previously reported in accordance with criteria prescribed by the Securities and Exchange Commission.

Thousands of Dollars	**1976**	1975
Rentals under long term capital leases	**$ 8,465**	$ 7,724
Rentals under long term operating leases	**2,421**	2,868
Contingent rentals under operating leases (net)—		
Hire of transportation equipment	**46,208**	37,067
Joint facility	**6,253**	5,279
Computer equipment	**2,200**	2,718
	57,082	47,932
	$65,547	$55,656

As of December 31, 1976, minimum rental commitments under long term leases were as follows (in thousands):

Year or period	Capital leases	Operating leases
1977	$ 9,478	$ 2,425
1978	9,521	2,479
1979	10,005	2,478
1980	9,903	2,270
1981	9,802	1,680
1982 through 1992	59,845	6,683
	$108,554	$18,015

Total minimum rental commitments pertaining to capital leases was comprised of the present value of such commitments ($68,058,000) and of interest calculated at Missouri Pacific's incremental borrowing rate at the inception of the leases ($40,496,000). If the leases had been capitalized, the property rights would have been amortized on a straight-line basis and interest expense would have been computed on the basis of the present value of the declining outstanding balance of the lease commitments. The impact on net income for 1976 and 1975 would not have been material.

Leases on transportation equipment provide options to purchase the equipment at fair market value at the expiration of the leases. The lease on the general office building provides an option to renew the lease for four terms of five years each beginning in 1991 and an option to purchase the building for $6,000,000 at any time during the remaining life of the lease.

Note 9
Contingent Liabilities

Missouri Pacific is contingently liable as guarantor, together with other owner railroads, for principal and interest of certain obligations of various affiliated companies aggregating approximately $129,169,000 at December 31, 1976. Under terms of a service interruption policy, Missouri Pacific is contingently liable for additional premiums up to a maximum of $22,331,000 in the event of work stoppages on other participating roads.

Missouri Pacific has an insurance deductible of $5,000,000 per occurrence with respect to casualty losses resulting from destroyed equipment, freight loss and damage, personal injury, third party liability and fire and extended coverage risks. At December 31, 1976 Missouri Pacific has set aside $5,600,000 in capital, insurance and other funds to be used in the event of major uninsured losses.

Note 10
Litigation

River Cement, like most other cement companies in the United States, is a defendant in several similar suits brought in Federal Court in Arizona by various cement users who claim to have been deprived of the benefit of free and open competition in the purchase of cement and cement products through alleged price-fixing by defendants. The suits are in the form of class actions, wherein the plaintiffs seek to represent themselves and all other persons or entities in the United States who are in the same alleged class(es). The defendants are ready-mix concrete producers in Arizona, cement companies which manufacture and/or sell cement in the State of Arizona, the Portland Cement Association (PCA), and the members of the PCA. The PCA is a trade association, of which most of the cement companies in the United States, including River Cement, are members. River Cement has never sold cement in the State of Arizona and has no other contact with that state. Plaintiffs claim the PCA members, through that Association and a credit association, engaged in activities which illegally raised cement prices in Arizona and elsewhere. River Cement denies these allegations. The suits seek treble the amount of damages the Court may find were sustained by the alleged class(es) during the period from January 1, 1958 to the present. The litigation is in an early stage and the amount of damages, if any, cannot now be reasonably estimated. Based on information presently available, counsel is of the opinion that the plaintiffs should not prevail.

Note 11
Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial information for 1976 and 1975 appears on page 18. The 1975 amounts appearing in the unaudited quarterly financial information were not subjected to limited review procedures as prescribed by Statement on Auditing Standards No. 10 "Limited Review of Interim Financial Information" issued by the American Institute of Certified Public Accountants in December, 1975.

Note 12 Replacement Cost Data (Unaudited)

The impact of inflation on the Company's operating costs and its investment in property, plant and equipment has been significant. The Company, which operates primarily in regulated industries, has historically been able to compensate for higher operating costs through approved rate increases. However, replacing items of property, plant and equipment with assets having equivalent productive capacity has usually required substantially greater capital investment than was required to acquire such assets originally. Data showing the estimated replacement cost of the Company's properties and inventories together with the related effects on depreciation expense and operating expenses is contained in the Company's 1976 Form 10-K filed with the Securities and Exchange Commission. Copies of the Company's 10-K for 1976, including financial statements and schedules, will be furnished without charge to interested shareholders upon written request directed to the Treasurer of the Company, 9900 Clayton Road, St. Louis, Missouri 63124.

Report of Independent Accountants

To the Shareholders and Board of Directors of Missouri Pacific Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Missouri Pacific Corporation and its subsidiaries at December 31, 1976 and 1975, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

St. Louis, Missouri
February 14, 1977

Missouri Pacific System

Consolidated Statement of Income

In Thousands of Dollars

	Year Ended December 31	1976	1975
Revenues	Freight	$ 981,005	$858,676
	Switching and other	32,663	29,870
		1,013,668	888,546
Expenses	Operating expenses:		
	Maintenance of way and structures	140,098	121,211
	Maintenance of equipment	159,338	137,531
	Traffic	19,669	18,123
	Transportation	390,355	357,324
	General	37,782	33,505
		747,242	667,694
	Net revenue from operations	266,426	220,852
	Other operating charges:		
	Taxes other than federal income	79,661	66,147
	Hire of freight cars and other rents	61,500	51,091
		141,161	117,238
	Net operating income	125,265	103,614
	Gain on bond reacquisitions	6,726	535
	Other income, net	15,491	9,114
	Interest expense	(45,773)	(44,101)
	Income before federal income taxes and minority interests	101,709	69,162
	Federal income taxes:		
	Current	35,656	27,691
	Deferred	12,183	5,492
	Investment tax credit	(17,793)	(13,351)
		30,046	19,832
	Income applicable to minority interests	2,967	2,615
Net Income		$ 68,696	$ 46,715

Mississippi River Transmission Corporation

Consolidated Statement of Income

In Thousands of Dollars

	Year Ended December 31	1976	1975
Sales	Gas sold to utility customers for resale	$185,989	$158,436
	Gas sold to industrial customers	52,060	33,397
	Other	998	919
		239,047	192,752
Expenses	Gas purchased for resale	175,154	143,811
	Operation and maintenance	13,321	11,666
	Depreciation, depletion and amortization	8,185	7,134
	Taxes other than federal income	3,183	3,095
		199,843	165,706
	Net operating income	39,204	27,046
	Interest expense:		
	Interest	10,759	9,123
	Allowance for funds used during construction	(407)	(1,246)
		10,352	7,877
	Income before federal income taxes	28,852	19,169
	Federal income taxes:		
	Current	11,511	6,583
	Deferred	2,100	2,901
	Investment tax credit	(675)	(2,630)
		12,936	6,854
Net Income		$ 15,916	$ 12,315

River Cement Company

Statement of Income

In Thousands of Dollars

	Year Ended December 31	1976	1975
Sales		$36,238	$33,019
Expenses	Operating expenses	26,823	23,915
	Depreciation, depletion and amortization	2,571	2,566
	Taxes other than federal income	691	702
		30,085	27,183
	Net operating income	6,153	5,836
	Other income, net	742	825
	Income before federal income taxes	6,895	6,661
	Federal income taxes:		
	Current	2,528	2,269
	Deferred	414	590
	Investment tax credit	(200)	(54)
		2,742	2,805
Net Income		$ 4,153	$ 3,856

Subsidiaries

Income Statements

Management's Analysis of Summary of Operations

1976 Compared to 1975

Consolidated revenues were $1,288 million in 1976, an increase of 16%. Revenues from railroad operations rose 14% to $1,014 million due primarily to a 6.8% increase in revenue ton miles and rate increases averaging 5%.Pipeline revenues rose $46 million to $239 million as a result of a 4% increase in sales volume to 226 billion cubic feet and higher prices.

Railroad operating costs were up $90.2 million, or 13%, as a result of increased maintenance of way and structures and maintenance of equipment expenses along with general increases in labor and material costs. Other operating costs increased $35.9 million resulting primarily from higher prices and increased volume of gas purchased. Taxes other than federal income rose 19% as a result of a $10.2 million increase in Railroad Retirement taxes. The $6.5 million increase in other income included $1.5 million in additional interest income and a $2.4 million increase in equity in income of Missouri Pacific's unconsolidated subsidiaries.

Net income of the Company's subsidiaries increased in 1976 as follows: Missouri Pacific from $46.7 million to $68.7 million, Transmission from $12.3 million to $15.9 million and River Cement from $3.9 million to $4.2 million. Consolidated net income rose $30.9 million to $80.2 million as our share of Missouri Pacific's income before minority interests increased by $28.2 million from $31.4 million (63.6%) in 1975 to $59.6 million (83.1%) in 1976. The higher average ownership percentage was a result of the exchange offer as described in Note 2. Without the exchange offer, minority interest expense would have been $26.0 million instead of $12.1 million and net income would have been $65.9 million.

Purchase accounting adjustments increased net income by $4.3 million in 1976 compared to $6.3 million in 1975. The decrease was primarily due to eliminating $2.9 million of Missouri Pacific's $3.5 million of net income from reacquisition of bonds. The elimination resulted from recalculating the gain based on the Company's fair valuation of the bonds at acquisition (see Note 2).

While net income increased 63%, earnings per share increased only 29% to $6.86 primary and $6.17 fully diluted. Primarily due to the exchange offer, the number of shares outstanding increased 26%. Earnings per share without the exchange offer would have been $6.88 primary and $6.05 fully diluted.

1975 Compared to 1974

Consolidated revenues rose $97 million, or 9.5%, to $1,113.8 million. Approximately half of the growth resulted from the impact of reporting revenues of the Missouri Pacific System for a full year in 1975 as compared to 11 months and 10 days in 1974. The MoPac's revenues were almost unchanged year to year as a 12.7 % decline in revenue ton miles was offset by increases in freight rates. The remaining growth in consolidated revenues was due principally to a 36% increase in sales of natural gas. The volume of gas sold rose slightly, a general rate increase to regulated customers was put into effect on April 1, and other adjustments were made in rates to recover higher gas purchase costs.

Consolidated net income increased $4.8 million, or 10.8%, to $49.3 million. Earnings per share were $5.28 primary and $4.79 fully diluted compared to $4.92 primary and $4.82 fully diluted in 1974. Net income of the Missouri Pacific declined 6%, or $3 million. Net revenues from operations increased $4.3 million, but this was offset by increased interest expense and a decline in other income. The decline in net income reported by Missouri Pacific was offset by purchase accounting adjustments in consolidation which increased to $6.3 million from $2.1 million in 1974. Net income from natural gas pipeline and exploration operations was almost unchanged. While income before federal income taxes rose $2.1 million, taxes increased $2.2 million, principally due to federal tax law revisions affecting depletion allowances.

Minority interests were reduced $3.9 million by elimination of the Transmission minority as of July 1, 1974, elimination of T&P and C&EI minority effective October 24, 1974 and our higher average ownership of MoPac in 1975 compared to 1974.

The decline in fully diluted earnings per share was due to an increase of 959,000 (10.3%) in the number of shares used for the fully diluted calculation. This resulted principally from the issuance in June of debentures convertible into 1,111,000 shares of common stock and from the impact of having another debenture issue convertible into 626,000 shares outstanding for a full year in 1975 as compared to six months in 1974.

Missouri Pacific Corporation and Subsidiaries

Five Year Summary of Operations

In Thousands of Dollars

(See Management's Analysis of Summary of Operations)

		1976	1975	1974	1973	1972
Sales and Revenues	Railroad operations	$1,013,668	$ 888,546	$ 843,549		
	Other operations	274,785	225,248	173,238	$143,898	$144,727
	Dividends—Missouri Pacific Railroad Company	—	—	—	5,792	5,787
		1,288,453	1,113,794	1,016,787	149,690	150,514
Expenses	Operating costs	979,176	853,079	780,511	105,974	111,084
	Depreciation, depletion and amortization	39,100	39,022	33,852	9,125	9,925
	Interest expense	62,720	59,085	51,809	6,350	6,124
	Taxes other than federal income	83,667	70,062	67,105	3,551	3,905
		1,164,663	1,021,248	933,277	125,000	131,038
	Other income, net	15,529	9,042	15,621	1,094	724
	Income before federal income taxes, minority interest and extraordinary items	139,319	101,588	99,131	25,784	20,200
	Federal income taxes:					
	Current	27,763	18,817	20,219	6,134	2,327
	Deferred	19,255	15,551	12,644	1,369	3,594
		47,018	34,368	32,863	7,503	5,921
	Minority interest	12,081	17,945	21,809	1,794	1,479
	Income before extraordinary items	80,220	49,275	44,459	16,487	12,800
	Extraordinary items, net of minority interest and related income taxes	—	—	—	1,434	623
Net Income		$ 80,220	$ 49,275	$ 44,459	$ 17,921	$ 13,423
Per Share Data	Primary:					
	Income before extraordinary items	$6.86	$5.28	$4.92	$1.82	$1.41
	Extraordinary items	—	—	—	.16	.07
	Net income	$6.86	$5.28	$4.92	$1.98	$1.48
	Fully diluted:					
	Net income	$6.17	$4.79	$4.82	—	—
	Cash dividends	$1.50	$1.22½	$1.05	$ .93	$ .85
	Average shares outstanding (thousands):					
	Primary	11,422	9,057	9,027	9,029	9,068
	Fully diluted	12,997	10,275	9,316	—	—

In 1974, results of the Missouri Pacific Railroad and its subsidiaries were consolidated for the first time. Prior to 1974 the Company's investment in Missouri Pacific was carried at cost and income was recognized as dividends were received.

See Notes to Consolidated Financial Statements, pages 24 to 33.

Directors and Officers

Directors

Joseph H. Bascom
Chairman of the Board,
Broderick & Bascom Rope Co.
Manufacturer of wire rope

Carl L. A. Beckers
Retired December 31, 1976
President, Beckers & Meyer, Inc.
Financial Consultants

W. Ashley Gray, Jr.
Chairman of the Board,
General Steel Industries, Inc.
Manufacturer of industrial and
transportation safety products

Douglas Grymes
President, Koppers Company, Inc.
Manufacturing, engineering
and construction

Herbert Gussman
Independent Oil Producer
and Investments

Downing B. Jenks
Chairman of the Board

James M. Kemper, Jr.
Chairman of the Board and President,
Commerce Bancshares, Inc.
Banking

Charles F. Knight
Chairman of the Board,
Emerson Electric Co.
Manufacturer of electrical products
and systems

John H. Lloyd
President, Missouri Pacific
Railroad Company

Arthur W. Manley
Retired Vice Chairman of the Board

James R. Martin
Chairman of the Board,
Massachusetts Mutual Life
Insurance Company

Thomas H. O'Leary
President

Raymond J. Saulnier
Professor Emeritus of Economics,
Columbia University

Warren M. Shapleigh
President, Ralston Purina Company
Diversified food processor

Audit Committee

W. Ashley Gray, Jr.
Arthur W. Manley
James R. Martin
Warren M. Shapleigh

Executive Committee

W. Ashley Gray, Jr.
Douglas Grymes
Herbert Gussman
Downing B. Jenks
Thomas H. O'Leary

Finance Committee

Downing B. Jenks
James M. Kemper, Jr.
Charles F. Knight
Thomas H. O'Leary

Officers

Downing B. Jenks
Chairman of the Board

Thomas H. O'Leary
President

Mark M. Hennelly
Executive Vice President

Cleon L. Burt
Vice President and General Counsel

James T. Ashworth
Financial Vice President

L. White Matthews, III
Treasurer

Francis L. Barkofske
Secretary

Stock Exchanges and Trading Symbols
Missouri Pacific Corporation/New York,
Midwest and Pacific Stock Exchanges/MIS
Missouri Pacific Railroad Company/American
Stock Exchange/MOP

Transfer Agents
Mercantile Trust Company National
Association, St. Louis, Missouri 63166
Morgan Guaranty Trust Company of New York,
New York, New York 10015

Dividend Disbursing Agent
Mercantile Trust Company National
Association, St. Louis, Missouri 63166

Registrars
The Boatmen's National Bank of St. Louis,
St. Louis, Missouri 63102
Irving Trust Co., New York, New York 10015

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